

**South African Reserve Bank
National Payment System Department**

**Position Paper on the Intraday Monitoring and
Utilisation of the Liquid Asset Requirement Holdings and the
Cash Reserve Account**

(Note: This position paper supersedes position paper 1/2002)

Position Paper: 2/2006

Dated: 2006-12-01

TABLE OF CONTENTS

EXECUTIVE SUMMARY	1
1. INTRODUCTION	1
2. DEFINITION OF ASSETS HELD FOR COLLATERAL PURPOSES	2
3. THE USE OF LIQUID ASSETS BY PARTICIPANTS IN THE SAMOS SYSTEM	2
3.1 Funding of settlement accounts	2
3.1.1 Receipt of a payment from another bank.....	3
3.1.2 Raising of automatic intraday SAMOS loans	3
3.1.3 Transfer of funds from the CRA at the Bank.....	3
3.2 The utilisation of the LAR holdings of banks.....	3
3.3 The utilisation of the CRA at the Bank.....	4
4. THE RESERVATION AND UTILISATION OF LIQUID ASSETS	4
5. CONCLUSION.....	6
6. ACKNOWLEDGEMENT OF RECEIPT	6

The Intraday Monitoring and Utilisation of the Liquid Asset Requirement Holdings and the Cash Reserve Account

EXECUTIVE SUMMARY

This document outlines the South African Reserve Bank's (the Bank) approach to the intraday monitoring and utilisation of the Liquid Asset Requirement (LAR) holdings and the funds in the Cash Reserve Account (CRA). This paper replaces the National Payment System (NPS) Position Paper 1/2002: Position Paper on the Intraday Monitoring and Utilisation of the Liquid Asset Requirement Holdings and the Cash Reserve Account.

The assets reserved for collateral purposes in the SAMOS system shall be the same categories of liquid assets as those held for LAR holdings as prescribed by the Registrar of Banks (the Registrar).

To monitor the use of the LAR holdings and the CRA utilised for liquidity purposes within the South African Multiple Option Settlement (SAMOS) system, it is required that the non-cash LAR holdings of banks participating in SAMOS, as calculated and recorded on the DI310, be reserved in the SAMOS system.

A defined portion of these LAR holdings may then be utilised to collateralise loans taken within the SAMOS system. Facilities are also provided within SAMOS to enable SAMOS participants to manage the use of their CRA.

1. INTRODUCTION

The Bank's mission is the achievement and maintenance of price stability while the National Payment System Department's (NPSD) mission is to ensure the overall effectiveness and integrity of the National Payment System (NPS).

The Bank implemented the SAMOS system, which settles interbank obligations on a pre-funded basis, on 9 March 1998. The SAMOS system was designed in such a way that in an instance where a bank had insufficient funds available in its settlement account to settle an obligation, the

SAMOS system would automatically grant the participating bank a loan against acceptable collateral reserved in SAMOS by the bank.

This position paper replaces the NPS Position Paper 1/2002: Position Paper on the Intraday Monitoring and Utilisation of the Liquid Asset Requirement Holdings and the Cash Reserve Account. The paper identifies the assets that permissible as collateral in the SAMOS system and outlines the intraday utilisation of Liquid Asset Requirement (LAR) holdings and the use of funds from the CRA.

2. DEFINITION OF ASSETS HELD FOR COLLATERAL PURPOSES

The Bank for International Settlements (BIS) Core Principles for Systemically Important Payment Systems (CPSIPS) prescribe in Core Principle VI that assets used for settlement should preferably be a claim on the central bank; where other assets are used, they should carry little or no credit risk and little or no liquidity risk.

In line with the Core Principle VI, the assets reserved for collateral purposes in the SAMOS system shall be the liquid assets, excluding cash and gold bullion, held for LAR holdings as prescribed by the Registrar of Banks (the Registrar) in section 1 of the Banks Act, 1990 (as amended).

3. THE USE OF LIQUID ASSETS BY PARTICIPANTS IN THE SAMOS SYSTEM

The Bank provides the banks participating in the SAMOS system with a facility to complement their liquidity available for settlement purposes through the SAMOS loan facility.

The Bank has the following arrangements in place to fund the banks' settlement accounts:

3.1 Funding of settlement accounts

Settlement in the SAMOS system is based on the pre-funding principle, in terms of which any inter-bank fund transfer will be effected only if sufficient funds are available in the paying bank's settlement account. The settlement account can be funded in a number of ways, *inter alia*:

3.1.1 Receipt of a payment from another bank

Payments received from the Bank and participating banks as a result of normal payment transactions between banks or as a result of a credit arrangement.

3.1.2 Raising of automatic intraday SAMOS loans

The SAMOS system includes a dynamic collateral-management component, which enables a bank to obtain an intraday loan from the Bank automatically if it has reserved the necessary acceptable assets in the system for use as collateral.

3.1.3 Transfer of funds from the CRA at the Bank

Within the SAMOS system, facilities are provided for SAMOS participant banks to manage their CRA. The banks may transfer funds between their CRA and settlement accounts, as and when required. The arrangement is described in detail under item 3.3 below.

3.2 The utilisation of the LAR holdings of banks

The Registrar has allowed the banks to use up to 50 per cent¹ of their LAR holdings during the day as collateral for intraday SAMOS loans to facilitate interbank settlements. This provides additional liquidity to the payment system. During the day, a bank may borrow against a portion of its liquid assets on condition that it meets the prescribed LAR holdings again by the end of the day. The maximum extent to which a bank may utilise its liquid assets on an interday basis has been set to 25 per cent of their LAR holdings. Under circumstances where a bank utilises collateral on an interday basis, for a loan in the SAMOS system, a punitive rate equal to the Repo rate plus a set margin will be charged.

The Registrar, however, maintains the discretion to apply the use of the LAR holdings selectively.

¹ This arrangement has been written into Regulation 20(3). See - R.1112 Banks Act (94/1990): Regulations relating to banks (Government Gazette 21726).

3.3 The utilisation of the CRA at the Bank

Banks are allowed to utilise their required CRA balance fully during the day for intraday liquidity by transferring an amount not greater than the balance of their CRA to their settlement account. In essence, although the banks are permitted to utilise these funds, the required CRA balance must be maintained on an average basis over each maintenance period².

In an instance where additional liquidity is required to settle a bank's exposure in a Payment Clearing House (PCH) batch during the night hours, the SAMOS system will automatically transfer funds from the CRA to the bank's settlement account.

4. THE RESERVATION AND UTILISATION OF LIQUID ASSETS

In order for the Bank to maintain its capability to monitor the utilisation of the LAR holdings and CRA the following arrangements had been implemented:

- All SAMOS participants are required to reserve their non-cash LAR holdings as prescribed by the Registrar on the SAMOS system;
- SAMOS participants may reserve more liquid assets than the LAR holdings in the SAMOS system;
- On an intraday basis a percentage of the LAR holdings as prescribed by the Registrar, may be used as collateral in the SAMOS system;
- The CRA should be maintained and managed in the SAMOS system by the banks; and
- The participating banks may transfer funds between their CRA and settlement accounts on an intraday basis.

The use of liquidity in the SAMOS system, as depicted in Figure 1, will be managed by the system in the following manner:

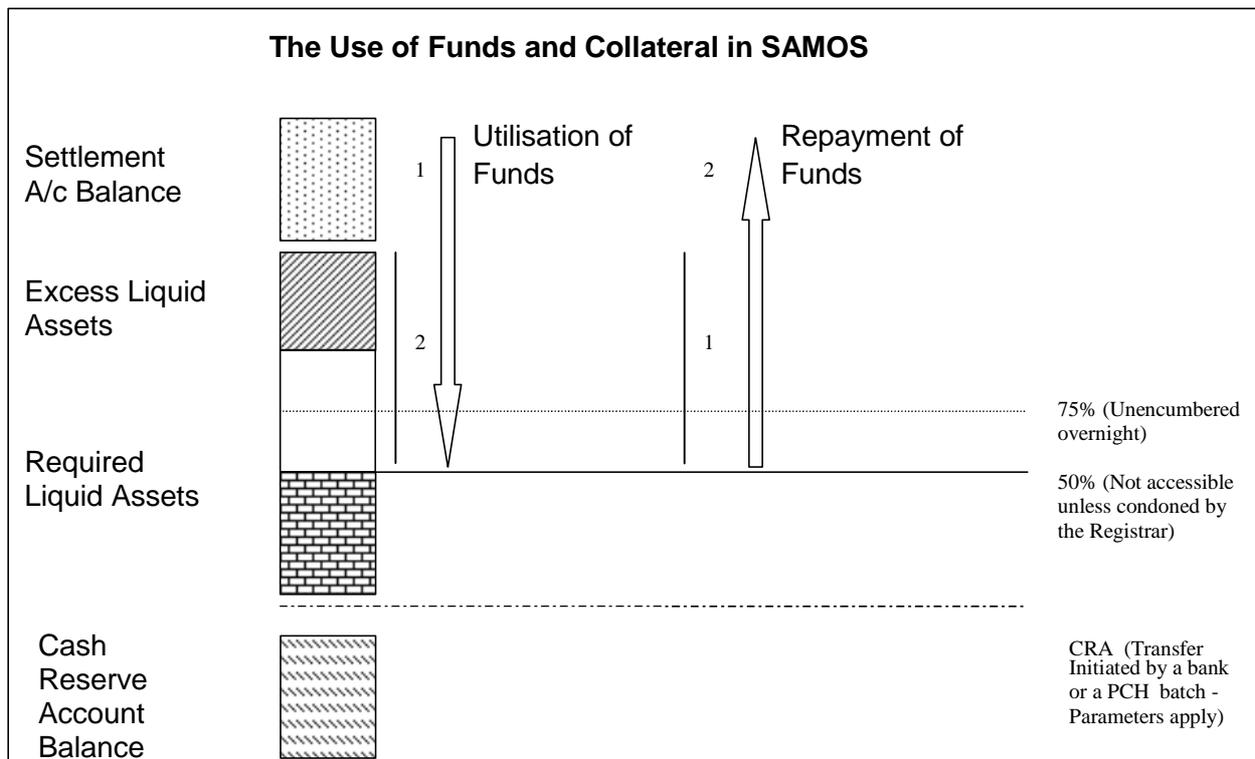
²A maintenance period starts on the 15th working day of a month and ends on the 14th working day of the following month.

- As funds are required for settlement (Real-time or PCH batches), funds will be drawn from or against the following sources:
 - The Settlement Account balance;
 - A loan against the reserved liquid assets including the available portion of the LAR holdings allowed by the Registrar (see Section 3.2 above);
 - In case of a PCH batch from the CRA balance.

The receipt of the funds will be applied in the following order:

- Firstly, for loans against reserved liquid assets including the LAR holdings (see Section 3.2 above);
- Secondly, the Settlement Account.
- In case where funds have been utilised from the CRA, the bank concerned will be responsible for the transferring of the funds from their Settlement account to the CRA.

Figure 1:



5. CONCLUSION

The facilities to monitor the LAR holdings of the banks in the SAMOS system and the use of the CRA of the banks in the SAMOS system enhances the overall settlement risk profile of the banks participating in the National Payment System and assists in ensuring compliance with these statutory requirements.

6. ACKNOWLEDGEMENT OF RECEIPT

Two additional copies of this position paper are enclosed for the use of your institution's independent auditors. The attached acknowledgement of receipt, duly completed and signed by both the chief executive officer of the institution and the said auditors, should be returned to the National Payment System Department at the Bank at the earliest convenience of the aforementioned signatories.

D C Mitchell

Head: National Payment System Department

ACKNOWLEDGEMENT OF RECEIPT

I acknowledge receipt of Position Paper 2/2006. Copies have been handed to the undermentioned auditors of this institution:

NAME OF AUDITOR

AUDITOR'S SIGNATURE

1.

.....

.....

2.

.....

.....

DATE

.....

CHIEF EXECUTIVE OFFICER

NAME OF BANK

.....

PLEASE RETURN TO:

The National Payment System Department
South African Reserve Bank
P O Box 427
PRETORIA
0001